

OCA FILE

U.S. HOUSE OF REPRESENTATIVES
PERMANENT SELECT
COMMITTEE ON INTELLIGENCE
WASHINGTON, D.C. 20515

OCA 3270-88

September 30, 1988

John:

Attached are the articles that I mentioned on the telephone today. Give me a call on Monday and maybe we can arrange a briefing on this case.

Have a good weekend.

Cheers,



Bernie Toon

Los Angeles Times

★ Wednesday, August 6, 1986/Part I 3

Suit Over CIA Deal Pays Freight Firm Owner \$6.2 Million

By GEORGE RAMOS,
Times Staff Writer

A Los Angeles federal court jury has awarded \$6.2 million to the owner of a freight-forwarding company who claimed that a secret oral agreement he made to provide a "cover" in Southern California for a CIA-owned airline was illegally broken in 1981.

In exchange for the cover, Air Asia, which did clandestine work for the CIA during the Vietnam War, promised Erwin Rautenberg, 65, that his company, Air Sea Forwarders of Los Angeles, would be the airline's exclusive forwarding agent, attorneys said.

Air Asia used Rautenberg's company as a front to send aircraft and military parts to the Far East from warehouses in Burbank and North Hollywood, court documents said.

The jury returned the verdict—\$6 million in punitive damages and \$216,000 in compensatory damages—Monday on a lawsuit filed by Rautenberg against Air Asia in 1981. The suit contended that Air Asia officials wrongfully broke a secret oral agreement that Rautenberg said he en-

Please see CIA, Page 21

Los Angeles Times

CIA: Terms of Oral 'Cover' Deal Violated, Jury Finds

Continued from Page 3

tered into with the airline's executives in 1956.

Rautenberg claimed that he was recruited by the CIA and agreed to lend his company's name to Air Asia operations in Burbank and North Hollywood, where supplies for CIA covert operations were packed for shipment overseas.

As part of that secret agreement, Air Asia agreed to terminate Air Sea Forwarders' role as its sole freight-forwarding agent only in the event of "good cause," which was not cited when the relationship ended, the suit said.

Received Assurances

Even though the CIA sold Air Asia in 1975, Rautenberg said he was assured that the terms of the oral agreement were still in effect.

In court documents, Rautenberg said a written agreement was not prepared because "Air Asia was a CIA proprietary company and it is this critical factor which accounts for the fact that the true nature of the relationship had to remain oral."

Air Asia officials, who did not deny the relationship with Rautenberg or its one-time involvement with the CIA, said in court that no secret agreement was made in 1956.

Air Asia's attorney, James Jurecka of Los Angeles, said a written agreement was made in 1966 that gave the airline the right to terminate its relationship with Air Sea Forwarders by written notice.

But a former Air Asia executive who headed the secret operations in Burbank and North Hollywood

Roy Herold, testified in court that a secret agreement had been made in 1956 with Rautenberg.

Government documents released in 1977 showed that the CIA sold Air Asia in 1975 to E-Systems Inc. of Dallas for \$1.9 million, about \$1.5 million less than its net worth.

Air Asia, which is based in Taiwan, was sold by Air America, a CIA-owned company that ran airlines in the Far East and Southeast Asia and provided transportation for various CIA projects, the government documents showed.

Air Asia still maintains an aircraft maintenance and overhaul operation in Taiwan, Jurecka said.

The jury in April gave a confusing verdict during the liability phase of the case in the courtroom of U.S. District Judge Richard A. Gadbois Jr., attorneys for both sides said.

In one part of its verdict, the panel ruled that a 1956 secret agreement had indeed been made and that it had been breached in 1981 when Air Sea Forwarders was let go by Air Asia. But it also found that the 1966 agreement was valid at the time it was made.

On an appeal by Rautenberg's attorneys, a three-judge panel of the U.S. 9th Circuit Court of Appeals ruled that the jury should be called back into court to clarify its verdict.

The jury was reconvened and it found that the 1956 agreement was in effect. It then deliberated for a day before returning its verdict of \$6.2 million Monday afternoon in favor of Air Sea Forwarders.

Jurecka said the verdict will be appealed.

Wednesday, August 6, 1966

The Los Angeles

Company With CIA Pact Awarded \$6.2 Million

By HARRIET CHIANG

A major defense contracting firm in Texas that purchased a company owned by the Central Intelligence Agency has been ordered by a federal jury to pay over \$6.2 million for breaching a secret contract between the government and an Inglewood freight-forwarding company.

A federal jury in Los Angeles on Monday awarded Erwin Rautenberg, owner of Inglewood-based Air-Sea Forwarders, Inc., \$216,151 in compensatory damages and \$6 million in punitive damages in his breach of contract suit *Air-Sea Forwarders, Inc. v. Air Asia Company Limited*, 21-4103, against Air Asia Company Limited, formerly owned by the CIA, and E-Systems, Inc., a Texas company that now owns Air Asia.

The jury agreed with Rautenberg's claim that the Texas company was in bad faith when it denied the existence of a secret oral contract between Air-Sea Forwarders and Air Asia.

The facts of the case resemble a complex mystery novel.

In 1956, Air Asia, an aircraft maintenance company and Air-Sea Forwarders, which had been doing freight forwarding for Air Asia, entered into a secret oral contract.

Under the agreement, Air-Sea Forwarders would pretend to do export packing for Air Asia so that the CIA-owned company could take advantage of a state exemption, said Air-Sea lawyer Matthew Steinberg, of the Beverly Hills law firm Welsz & Steinberg. Air Asia also agreed that the contract would not be terminated except for good cause, Steinberg added.

However, Air Asia's lawyers denied the existence of the 1956 agreement. In any event, said James Jurecka, a Century City lawyer who represented the defendants, if the secret pact was made, it was superseded by a 1966 written contract, which included a general 30-day termination clause.

However, the jury found that the 1956 contract was controlling. And Steinberg charged the defendants "dredged up" the 1966 pact to block enforcement of the earlier agreement.

Firm Said Duped

In 1975, the CIA sold Air Asia to E-Systems, whose officials reassured Rautenberg that the company was still controlled by the government. As a result, Steinberg said, "my client was duped into continuing his participation."

However, E-Systems denied making any misrepresentations and also insisted it was

entitled to terminate the contract with Air-Sea Forwarders in 1971.

On July 9, the jury returned a verdict finding that E-Systems made misrepresentations to Rautenberg and wrongfully terminated the contract. The jury also found E-Systems liable under the tort of bad faith for denying the existence of the 1956 contract and therefore subject to punitive damages.

U.S. District Court Judge Richard Gadbols Jr. issued a directed verdict for the defendants, however, concluding that some of specific jury findings were inconsistent with a verdict in favor of Air-Sea Forwarders. On appeal, the Ninth U.S. Circuit Court of Appeals ordered Gadbols to recall the jury to clarify its verdict.

The jury then said it found the defendant liable, and on Monday awarded Air-Sea Forwarders over \$6.2 million in damages.

Jurecka said the \$6 million in punitive damages are "out of proportion and they're not warranted at all." He added that his clients are seriously considering appealing the verdict.

Steinberg countered that the punitive damage award was appropriate, pointing out that E-Systems is a billion-dollar corporation that reaped \$60 million in profits in 1975.

Local Freight Forwarder Admits CIA Connections

By JOHN O'MALLEY
Daily Commerce Staff Writer

The owner of a North Hollywood freight forwarding company has charged in federal court that the Central Intelligence Agency and a Dallas-based electronic warfare company breached a long-standing arrangement which cost him millions of dollars in service fees.

According to a report in the Daily News, Erwin Rautenberg of Air Sea Forwarders Inc. broke a 20-year vow of secrecy about his connections with the CIA in a lawsuit

filed last week in United States District Court in Los Angeles. The suit claims Rautenberg was a victim of antitrust and civil rights violations, racketeering, and breach of contract.

The lawsuit named in its accusations the CIA, E-Systems Inc. of Dallas and its wholly owned subsidiary, Air Asia, and a Taiwanese company with an office in Lawndale, Dimerco Express.

According to the Daily News, Rautenberg said in his suit that he had contracts with the CIA for the past 30 years to handle documentation for military shipments to the Far East, and had decided to break a promise of secrecy after frustrated attempts to resolve his dispute over the loss of his covert business to Dimerco Express in 1981. The suit reportedly blames bribes and kickbacks paid by Dimerco employees to E-Systems for termination of the contract.

U.S. District Judge Richard A. Gladbois Jr., during a hearing Friday, set the jury trial date for September 17 and ordered the case file sealed. The Daily News said that it discovered documents in the public record which outlined the Rautenberg suit.

Rautenberg and his attorney, Mathew Steinberg, declined comment Thursday about the lawsuit.

John Kumpf, corporate director for public relations for E-Systems, confirmed to the Daily Commerce Thursday that in 1975 his company bought Air Asia, then a CIA-owned air cargo line. He also said that his company now employs Dimerco Express to handle its freight forwarding.

However, Kumpf refused comment on Rautenberg's suit and denied any CIA connections between his firm and Air Asia. "It's strictly a business relationship," he said.

CIA spokeswoman Patty Volz told the Daily Commerce that the Rautenberg suit is an old case and that "the agency's only involvement had been to represent former government officials who are called to testify." She said that the agency has had "absolutely no dealings" with Air Asia since its sale to E-Systems in 1975.

Export managers in Los Angeles who have known Rautenberg for many years said that the 65-year-old German-born businessman is well-known for his patriotism and his strong views on U.S. local trade policies.

"I can't think of a more patriotic American, so dedicated to do what is right for his country," said Charles Nevil, president of The Meridian Group, a Los Angeles export manager.

CIA

FROM A1

sons, according to federal marshals standing guard at the door.

The suit, inadvertently left unsealed, specifically accuses E-Systems of breaking a 1956 agreement Rautenberg had with the CIA by switching its business to a Taiwanese firm that Rautenberg says charges "exorbitant and unconscionable fees ... in order to generate revenues for kickbacks, bribes and other illegal and unconscionable payments."

The CIA could not be reached for comment Wednesday.

John Kumpf, an E-Systems spokesman, said he has no relationship with the CIA. E-Systems, which employs 12,000 people, does the bulk of its business with the government and in 1984 had revenues of better than \$800 million.

Rautenberg, contacted Wednesday, said simply, "I am not in a position to make any comments." His attorney, Matthew Steinberg, also refused to respond to questions about the suit.

When E-Systems purchased Air Asia, the suit says, Rautenberg was told "the covert aspect would continue, and Air Asia would remain the same but in a different wrapping."

~~Air Asia was one of a number of companies set up by the CIA during the 1950s and 1960s to provide cover for various intelligence operations. During the Vietnam War, it significantly increased its support of military and clandestine operations in conjunction with other CIA companies such as Air America, Civil Air Transport, Intermountain Aviation and Southern Air Transport, the suit states.~~

Air Asia "is ostensibly in the

business of ... providing parts, service, maintenance, modification and electronics parts to military and civilian aircraft located in Taiwan, throughout Asia and in other parts of the world," according to the lawsuit.

The equipment, acquired from companies throughout the United States, was shipped to the covert Air-Sea facility in North Hollywood where it was "received, inspected, packed and prepared for shipment to Taiwan and other destinations. Goods were of a commercial as well as military nature," according to the suit.

With U.S. involvement in the Vietnam War winding down in 1972, Rautenberg said he was told Air America was being disbanded and Air Asia would be sold.

In fact, "Air Asia, as a valuable military asset of the U.S., would undergo very few or no changes," the suit states. "Military contracts and the backing of the U.S. government would continue."

Rautenberg, a Century City resident, said his relationship with the CIA began in the early 1950s when the intelligence agency asked him to let it establish an Air-Sea facility to be used as a front for Air Asia, according to the suit. It would be staffed and operated by Air Asia employees, the suit says.

The facility, "concealed from public eye in a quiet side street" in North Hollywood, was completely distinct from the rest of Air-Sea's operations in North Hollywood and in Inglewood near Los Angeles International Airport, according to the suit.

"The two Air-Sea North Hollywood facilities, one overt and one covert, were located less than a half-mile from each other, but in function were worlds apart," the suit states.

In the fall of 1956 the relationship between Rautenberg and Air Asia was solidified by a verbal agreement requiring Air-Sea to "protect the best interests of Air Asia" and barring Rautenberg from revealing anything about the relationship, the suit states.

The covert facility was "strictly off-limits" to all real Air-Sea employees except Rautenberg. "For almost 30 years Air-Sea and Rautenberg faithfully and efficiently complied with all of these terms," the suit states.

But all that changed in 1981 when Rautenberg said E-Systems executives told him they were thinking of moving the covert facility to Dallas. He was "repeatedly and blatantly" asked for kickbacks, threatened and subjected to anti-Semitic slurs, according to the

Suit claims CIA sold-out 30-year confidant

By The Associated Press

A Los Angeles-area businessman who claims he ran a company that fronted for the CIA for 30 years has filed a lawsuit he says breaks a vow of secrecy because the agency broke a verbal promise to him.

In the lawsuit filed in federal court against the CIA and a Dallas company, Erwin Rautenberg, president of Air-Sea Forwarders Inc., said he was approached by the CIA in the early 1950s and asked to open an Air-Sea office to be used as a front for Air Asia, an aircraft modification company that he says is owned by the CIA.

Rautenberg said he opened a covert Air-Sea office in North Hollywood, where an "overt" Air-Sea freight-forwarding station was already operating. He said the covert office was staffed by Air Asia employees and shipped arms and commercial products to the Far East, Mexico, and Central and South America.

"The two Air-Sea North Hollywood facilities, one overt and one covert, were located less than a half-mile from each other, but in function were worlds apart," says the suit, which seeks millions of dollars in dam-

ages, claiming breach of contract, racketeering, and civil rights and antitrust violations.

A precise dollar amount was not revealed, and attorneys refused to comment Wednesday.

The covert operation allowed the CIA and Air Asia to avoid paying millions of dollars in state taxes and avoid "inquisitive outsiders," the suit says.

In it Rautenberg said he and the CIA orally sealed "the 1956 Valley Branch Agreement," which swore him to secrecy forever in exchange for protecting Air Asia and the use of his company's name.

"For almost 30 years Air-Sea and Rautenberg faithfully and efficiently complied with all of these terms," the suit says. During the Vietnam War, Air Asia expanded "its support of military and clandestine operations," the suit says, and Air-Sea became the forwarder for another reputed CIA front, Air America.

But in 1972, with the Vietnam War winding down, Rautenberg said he was told Air America would be disbanded and Air Asia would be sold. He said CIA officials assured him the 1956 contract would continue.

When E-Systems Inc. of Dallas bought Air-Sea, Rautenberg said, a Taiwanese firm took over the covert office in 1981, breaking his agreement with the CIA. He claims the breach of contract has cost him millions of dollars in business.

John Kumpf, spokesman for E-Systems, denied the company or Air Asia has any connection with the CIA. He declined to comment on the suit.

Rautenberg originally filed the suit against E-Systems in 1981, alleging breach of contract, fraud and racketeering. That suit did not mention any reputed CIA involvement.

The amended suit, filed March 5, 1985, claims Rautenberg in 1981 had "not yet disavowed his secrecy oath."

U.S. District Judge Richard A. Gadbois Jr. has ordered the case file sealed Friday on national security grounds, but a copy was placed in the public record, apparently by mistake.

At a hearing Friday with federal marshals standing guard outside, Gadbois set a jury trial date for Sept. 17.

CIA sold 'front' out from under 30-year confidant, suit says

By Adam Dawson
The Register

LOS ANGELES — After a secret, 30-year partnership with the CIA, an Inglewood businessman has accused the agency of abandoning him after it sold the company he "fronted" for, costing him millions of dollars in business, according to a lawsuit filed in federal court.

Erwin Rautenberg, president of Air-Sea Forwarders Inc., originally filed suit in 1981 against E-Systems Inc. of Dallas, alleging breach of contract, fraud and racketeering. That suit did not mention

the relationship of Air-Sea, a freight forwarder, with the CIA because Rautenberg, now 64, had "not yet disavowed his secrecy oath," according to court documents.

Rautenberg amended his lawsuit March 5 and disclosed that, starting in the 1950s, he allowed a CIA-front corporation, Air Asia, to operate a covert Air-Sea Forwarders office in North Hollywood. Air Asia shipped arms and other material to the Far East, Mexico, and Central and South America, according to the lawsuit.

E-Systems inherited the agreement with Rautenberg's company

when it purchased Air Asia, ostensibly an aircraft modification company, from the CIA for \$1.9 million in 1975, the suit charges.

In papers filed in U.S. District Court, his attorney said Rautenberg broke his vow of silence because it is the only way he could "effectively prosecute this lawsuit."

The amended lawsuit was ordered sealed by U.S. District Judge Richard Gadbois Jr., who set trial for Sept. 17. Gadbois gave the order for secrecy after a brief hearing Friday in a courtroom closed for national security rea-

Please see CIA/A2

Plan to halt security leaks shelved

The Reagan administration has dropped a controversial proposal by the Central Intelligence Agency to make it a crime for government employees to disclose national secrets without authorization, officials said Wednesday.

But they said the administration remained concerned about unauthorized disclosures of national security secrets to report-

ers and others, and had not ruled out proposing similar legislation in the future.

The officials said the CIA had joined in a decision not to go ahead with a proposal made this month by William J. Casey, director of central intelligence, to send the criminal provision to Congress as part of the proposed Intelligence Authorization Act for fiscal 1986/A12.